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SMITH, RICARDO AND MARXIAN VIEW ON ECONOMIC ORIGIN OF 'RENT OF LAND'

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ABSTRACT

Discuss in what way if any, the meaning of the category "rent of land" differs in the writings of David Ricardo on the one hand, and Adam Smith and Karl Marx on the other, paying particular attention to the question of the economic origin of rent. Ricardo reduced the rent to a purely technological category, which is redundant for the purpose of any insightful analysis. Whereas, Marx and Smith both has acknowledged the essentially social character of rent (class relation).

INTRODUCTION:

The conceptualization of the category "rent of land" in David Ricardo's writings differs very significantly from the understanding of "rent" that was developed by Adam Smith in his Wealth of Nations. While the understanding of rent as arising due to asymmetry in access to land between the class of landlords and actual cultivators was central in the works of both Smith and Marx, Ricardo did not recognise this social character of rent. Ricardo's description is entirely technological in nature, and as Marx points out, is limited to differential rent. The reason behind this departure can be traced to the need for formulating a theory of rent that was consistent with Ricardo's own belief that prices and values were identical. This paper will attempt to discuss in detail in what way if any, the meaning of the category "rent of land" differs in the writings of David Ricardo on the one hand, and Adam Smith and Karl Marx on the other, paying particular attention to the question of the economic origin of rent. I will also try to Illustrate my analysis by constructing a numerical example of what Ricardo called rent and explain what difference would be made to the example if Smith and Marx's concept were to be used. This paper attempt to deal with the some of the basic questions, Why did the classical economists other than Ricardo consider land rent to be a barrier to investment and hence to the expansion of agricultural production? In a developing country if the land is owned by a minority of persons and the majority of tenants are small farmers producing with family labour, in what way would "rent as a barrier" operate?

Ricardo's conception of "rent":

"Rent" according to Ricardo arises due to differences in quality of land. When the land of equally good quality is available in abundance about the population, no rent will arise. But because land differs in quality and with the extension of cultivation, the good quality land becomes scarce; rent will arise on the land which is relatively more productive. Starting from a situation in which land of equally good quality is available in abundance, i.e., a situation in which no rent can be commanded, rent will arise on this good quality land when cultivation is extended to inferior lands. The better quality land produces greater surplus than the inferior land, and this difference between the surplus produced on the land of differing qualities is categorised as "rent" by Ricardo. The new, inferior lands brought under cultivation give rise to rent on the previously cultivated better quality land. For the last units of cultivated land, i.e., the most inferior lands which are still available in abundance are "no rent" lands within the Ricardian framework. The following example illustrates Ricardo's conception of "rent."

Suppose the following kinds of land for growing corn exist:
A- best quality land,
B- inferior to A,
C- inferior to B and A.

The capital outlay on each type of land is assumed to be Rs.100. The price of production including the capital outlay and the average rate of profit is assumed as Rs.130.

With Rs.100 of employed capital, the per acre output of each kind of land is as follows:
A- 2 quintals
B- 1.5 quintals
C- 1 quintal

To be cultivated, each unit of land must earn at least the price of production, Rs.130.

Land A will be cultivated when the price that the producer of A can be sold for is at least Rs.(130/2) = Rs.65. Now, at this price, land B will yield 1.5 X 65 = Rs.97.5. As the prices of production are not covered, land B and correspondingly land C will not be cultivated. As all of land A is exhausted, cultivation must move to the inferior lands. Land B requires that price must be at least Rs.(130/1.5) = Rs. 86.67 to be brought under cultivation. Now, if the price is Rs. 86.67, then the surplus produced on land A over and above the price of production is:

Rs. (86.67 X 2) – 130 = Rs.43.33

Land A earns this surplus, while land B simply covers its price of production. This difference of Rs.43.33, according to Ricardo is the "rent" commanded by land A by its superior quality.

The following table presents the Ricardian "rent" on each type of land if cultivation is extended to land C, at different prices per quintal:

Ricardian "Rent" for land of differing qualities

Land type	Output per acre	"Rent" when Price = Rs.65	"Rent" when Price = Rs.86.67	"Rent" when Price = Rs.130
A	2	0	43.33	130
B	1.5	-32.5	0	65
C	1	-65	-43.33	0

In the above example, when the market price of output is Rs.130, the capital employed on land C pays no rent and land type C is "no rent" land. It is clear that as soon as the growth of population necessitates the extension of cultivation to lands that are more and more inferior, rent emerges on better quality lands in the purely Ricardian sense.

Although Ricardo's exposition is elegant, he departs from the concept developed by Adam Smith by providing rent with an entirely new definition, as against the meaning with which the term is popularly used. Further, the function of concentrated land ownership in generating rent is ignored.

Ricardo's departures from Smith's concept of Rent:

While Ricardo insists that rent arises due to scarcity of good quality land, and if a landlord brings about improvement in his land he earns a higher rent, Smith had recognized that the role any material improvements in the productive capacity of land in creating rent was limited, as the landlord demands rent even for unimproved land.[1] While Smith correctly laid down the fact that rent is the price paid for the use of land, and is, therefore, a monopoly price, Ricardo discards Smith's analysis by linking rent solely to the difference in productivity arising due to the quality of land. Although Smith does recognise that better quality land possibly due to improvements arising due to investments may command a higher rent than unimproved units of land, he doesn't view this difference as the source of rent. Ricardo objected to Smith using the term "rent" for the payment made for the right to quarry stone and removing timber from natural quarries and forests respectively. Such an objection is unreasonable, as Marx points out, that the payment is rent and nothing else, for it can not be termed as profits or interest, as the landowner has not invested anything for the production of stones or timber forests. Further, Smith viewed rent as clearly entering into the composition of the price of commodities, the extent of which may, however, differ for different commodities. His insistence bound Ricardo on the other hand that commodities exchanged for their values, and thereby believed that prices must be regulated by the capital employed on "no rent" land.[2]

Criticism of Ricardo in Marx's analysis:

Marx's analysis of absolute ground rent and differential rent criticises the concept of rent that Ricardo had developed. Marx stresses on the single most important source of origin of rent: concentration/monopoly of ownership of means of

production.

Marx approves of Ricardo's statement that *"…rent is the difference in the produce obtained by the employment of two equal quantities of capital and labour…"* with the qualification that this understanding must be restricted to what Marx calls differential rent. Differential rent according to Marx was nothing more than surplus profit itself that arose when a natural resource was monopolised. This may accrue to the owner of the resource who is not a capitalist or to the capitalist himself if he/she owns the resource. Here, the source of this surplus is not the existence of private property, for this surplus would exist even in its absence, although private property plays an important role in its appropriation. The transformation of this differential rent into ground rent requires the existence of landed property.

Ricardo describes rent as *"that portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible powers of the soil."*[3] Even though he recognizes that rent is paid for "use" of land, he links it to the differences in quality of land rather than recognizing the fact that the very need for a separate category for payment made in return for "use" presupposes property rights in land ownership to be held by one who is not partaking in the process of cultivation. The Ricardian notion of rent is simply a formulation of higher surplus profits that arise on better quality land, which may be appropriated by the capitalist farmer if he owns the land, or may be paid to the landowner if the land does not belong to the farmer. In the case where a capitalist farmer has the property rights to the land he cultivates, Ricardian rent appears as a purely technological category. In the second case when ownership rights rest with a landlord, the fact that rent must be paid for the use of any land by the capitalist farmer necessitates the recognition of the role of the concentration of land ownership rather than mere differences in productivity of land as the source of rent.

Marx differentiates the concept of differential rent that exists independently of ownership from absolute rent. Marx pin points the source of absolute ground rent to the existence of a class that monopolises the ownership of land. Unless rent is paid, there is absolutely no reason why a landlord would allow his land to be cultivated, even if it is of the worst quality. Ownership rights provide the owner with the right to withhold land from being used in the process of production unless a rent is paid. This essential importance of the role of landed property, which Marx emphasised, was missed completely by Ricardo who viewed rent as arising merely due to scarcity of good quality land. To bring land under cultivation, in the presence of the class of landlords it becomes essential to pay rent. This leads to a rise in the market price above the price of production, P+r so that rent can be paid to the landlord. The land will be cultivated, therefore, not because it can earn its price of production, but only if it can produce over and above its price of production, ensuring a rent for the land owner.

The example provided earlier may be modified as follows to understand the implications of Marx's concept of absolute ground rent as against surplus profits that were regarded as "rent" by Ricardo:

Absolute Ground-Rent for land of differing qualities

Land Type	Out per acre	Rent = Surplus – Profit (when price = Rs 75)	Rent = Surplus – Profit (when price = Rs. 100	Rent = Surplus – Profit (when price = Rs. 150)
A	2	20	50	150
B	1.5	-37.5	20	75
C	1	-75	-50	20

Apart from the original price of production of Rs.130, when the land is owned by a class of landlords who charge rent for the use of their lands, we can assume rent @ 20% on Rs.100 of the employed capital. Thus, the market price must rise to Rs.130 + (20% of 100) = Rs.150 to bring the land of quality C under cultivation. In the absence of this absolute ground rent of 30%, land C could be cultivated when the market price was Rs.130. Here, absolute ground rent exists in addition to the differential rent because of the existence of landed property. This is the primary distinction between Ricardo and Marx's concepts of the origin of rent.

With the introduction of landed property, it is clear that market prices must rise above prices of production for land to be cultivated. Thus, the very existence of landed property creates absolute ground rent.

At this juncture, Marx's distinction between the market price and the value of a commodity becomes crucial. Values form the basis of prices of production, yet prices of production differ from values. The reason for this deviation is that in a capitalist society, the division of the net social product depends on the struggle between the working class against the capitalist class. There is a tendency towards equalisation of individual rates of profits with competition between capitals while the organic composition of capital differs in different branches of production. This implies that that prices of production will deviate from values. According to Marx, it is the organic composition of capital for a particular commodity that determines the relation between prices of production and the value. The Ricardian framework is based on the assumption that commodities must exchange for their values. This framework, therefore, does not allow for the entry of rent into the price of production, as it leads to a logical contradiction wherein the price of agricultural commodities would rise above the value.

Even in the case of land that is leased by a capitalist farmer for some years, the capitalist farmer may retain the surplus profit for the duration of the lease, but the landlord will demand a higher rent to the extent of the surplus profit at the time of lease renewal.

It is clear from the above discussion that the concept of "rent" developed by Ricardo was different from Smith and Marx's view. While Smith and Marx's formulations reflected the actual material reality by basing the analysis regarding the class structure of society where ownership of land was concentrated in the hands of few, Ricardo provided a technical description of surplus profits and termed it as "rent."

Ricardo does note that *"…in popular language, the term (rent) is applied to whatever is annually paid by a farmer to his landlord."*[4] But he consciously restricts his analysis to the narrow domain of differential rent. Ricardo provides examples from North America, a region where abundant vacant land was available for settlers. In the absence of land monopoly, absolute rent did not exist. Such examples hold no relevance to Europe as well as countries like India where landed property exists very significantly. Thus, by labelling "rent" a concept that could be accommodated without disturbing the basic premise with of identical values and prices, Ricardo commits the fallacy of petitio principii. The term "rent", is given an entirely new meaning by Ricardo which although appears to fit in with his system, tells us nothing about rent regarding its common meaning. Further, by failing to recognise the material reality of the existence of a class of landowners who extracted surplus simply because of inheritable property rights and without necessarily investing anything in production, Ricardo also commits a material fallacy.

Further, it is unclear why the Ricardian proposition that price of production on the worst quality of land is the determining price must hold. This proposition implies that individual capitals can earn either the general average profit or more than this profit, but never less[5]. This is problematic as it goes against the understanding of averages.

Land rent as a barrier to investment and expansion of agricultural production:

Both Smith and Marx recognised the role of rent as a barrier to the expansion of production. Smith recognises the possibility of the landlord investing in improvements; he notices that the tenant himself may make improvements during the period of lease. However, the landlord may lay claim to higher rent on account of such improvement, which he has not brought about.

Marx explains that there is a perpetual tendency in capitalism to equalise the distribution of surplus value produced by total capital. Landed property acts like an alien barrier to the flow of capital guided by competition. In branches of production where land is not so crucial for e.g. branches of manufacturing, profits compete away. On the other hand, in agriculture, the existence of landed property tends to stabilise the existing surplus by appropriating it to the class of landlords. The discussion on absolute ground rent shows that even though the produce of land may be sufficient to cover price of production, land may not be cultivated unless it can produce enough to not just cover price of production, but also provide a rent to the landowner. Hence, there may exist significant proportion of uncultivated lands in societies which have landed property.

Further, rent is a barrier to the expansion of agricultural production as an investment is undertaken out of the surplus profit that a capitalist earns over and above the price of production. When landed property exists, landlords will try to extract as much rent as possible. Since this rent not just raises the market price of produce, thereby pushing areas of land out of cultivation, but also extracts the surplus from all land, it reduces the availability of investible surplus as the general rate of profits accruing to the capitalist class is lowered. The rate of profit in agriculture is not equalised to the general rate of profit but remains higher by the rate of rent. The part of surplus that is transferred to landlords as rent may not employ it for the same purpose of investment as the capitalist farmer would have. Landlords may extract the entire surplus from the capitalist farmer simply by their power to be able to withhold their land from productive use.

Rent, therefore, is a subversive category, as it represents a parasitic class that needn't engage in the process of production, yet enjoys the right to appropriate surplus simply due to its ownership of land. Not only is such appropriation unfair, but also acts as a barrier to improvements and productive investment.

Developing countries such as India are in the phase of transition from pre-capitalist modes of production. In such societies when the ownership of land is concentrated in the hands of a minority, while the vast majority of tenants are small farmers producing with family labour, the concept of prices of production and capitalist rent may not be the relevant concepts. Rather, rent in pre-capitalist societies includes the entire surplus of output over production cost (including subsistence of the tenant's family, but not the average rate of profit). This situation is marked by the poor conditions for the tenant and his family as he is hardly able to retain any of the surpluses he produces when faced by pre-capitalist rent. In the

post-independence period, there has been a strong tendency towards the development of a rich peasant class due to some land reform legislations, but the monopoly of land ownership remains strong. It is possible for the landed class to charge very high rates of rent to the tune of 50%. The actual farmer is therefore stripped of the surplus which he might have invested in improvements in agriculture. The surplus which is transferred to the landlord will be invested only in areas that yield at least the average return prevailing in the economy. In agriculture, however, because of the existence of pre-capitalist ground rent, investment will take place only if the return includes the average rate of profit plus the existing level of pre-capitalist rent.[6] The presence of a landlord class that monopolises ownership of land and obtains high rent without necessarily making any outlay, therefore, operates as a barrier in a developing economy. Further, the existence of poor agricultural labourers with very little or no means of production of their own it is possible to depress necessary labour itself. With high rates of unemployment and significant underemployment, there are no alternatives for the class of tenants in the labour market. In case any surplus is retained by the tenants over the period of the lease, it is squeezed out by the landlord at the time of lease renewal. It must, however, be noted that the class of tenants in itself is not homogeneous, but as far as small farmers who produce primarily with family labour are concerned, rent does appear as a significant barrier to productive investment in agriculture. An allied tendency of the existence of pre-capitalist rent is the emergence of land-augmenting technical change such as investments in irrigation, fertilisers, high yielding varieties of seeds, etc. through which private capitalist investment tries to overcome the barrier of pre-capitalist rent.[7]

The recognition of the role of concentrated ownership of land is crucial to understand the actual nature of rent and its implications on the appropriation of surplus and investments in agriculture. The Ricardian concept which does not acknowledge the essentially social character of rent is inadequate. Ricardo reduced the rent to a purely technological category, which is redundant for the purpose of any insightful analysis. The continued use of Ricardo's concept of rent in mainstream economic theory instead of the more accurate concept of Smith and Marx has resulted in the lack of adequate theorization of landlord-tenant economic relations. The concept developed by Marx not only covers the technological category of Ricardo as differential rent but emphasises correctly on the more important absolute rent which arises due to ownership rights of land vested in a particular class in society. As Ricardian rent exists independently of class relations, confining analysis solely to this concept results in the theoretical bankruptcy in characterising social relations in mainstream economics. Ignoring the basic material reality of the existence of landed property and its role in creating rent and appropriating surplus for a stark technological definition of rent renders all analysis flowing from such a restricted definition as unfruitful. The lack of the basic understanding has particularly strong implications for developing countries such as India where pre-capitalist relations persist in the sphere of landed property. Recognition of the correct source of origin of rent as the existence of landed property is essential to deal with the complex reality of social relations in a transitional phase in developing countries. The theorization offered by mainstream economics does not recognise any social formation apart from capitalism and is therefore not helpful for the purpose of formulating important policies such as land reforms, the design and implementation of which remains far from satisfactory in India.

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FOOTNOTES:

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